THE TARIFF AND THE ULTIMATE CONSUMER[1]

The purpose of this article is to emphasize the fact that, both in the theoretical discussion of the tariff question and in the practical determination of tariff rates, an important element of the problem has too frequently been omitted. I refer to the great difference between producer's prices and consumer's prices and to the relation which exists between the two. The discussion of the relation of the tariff to prices is generally conducted on the assumption that there is a given single price for an article in one country at any given time, rather than with reference to the important commercial fact that there are different prices for the same article at different stages of distribution. Of course, this very simple fact has never been entirely forgotten, but it has been too frequently assumed that producer's prices and consumer's prices somehow move together automatically, and that a change in the one will always be reflected in the other. In the Middle Ages the attempt was made to bring about such an adjustment of prices by positive statute. The characteristic of the Assizes of Bread and Ale was the provision determining the size of the farthing loaf according to each slight fluctuation in the price of wheat. In the same way the price of ale was regulated according to the price of the raw material. In modern economic writing the all too easy assumption has usually been made that a similar adjustment between producer's prices and consumer's prices is secured by means of competition. In the case of a large proportion of goods bought for immediate consumption, such an adjustment often does not appear at all, even over considerable periods of time. In fact, price conditions frequently change altogether before the long-time forces, which might ultimately bring such adjustment, have had time to operate. This makes much of our theoretical reasoning regarding prices entirely useless for the actual problems of commerce and even suggests the necessity of a radical revision of our price theories. Price phenomena, which the economist has been in the custom of waiving aside as "abnormal" or "temporary," are really every day occurrences in the business world and are persistent and ordinary rather than unusual. The exceptions to the supposed general rule are so common that one may well ask

[1] This article was prepared before the appearance of Professor Taussig's *Some Aspects of the Tariff Question.* A brief note is appended at the close of the article, indicating its relation to this admirable new work.

whether, both for the purposes of economic theory and for the problems of economic legislation, the ordinarily accepted theory as to competitive prices is not more a hindrance than a help.

It would be possible to give illustrations from a great number of the articles bought for daily use by the average man and woman. The price of a loaf of bread does not fluctuate directly with the price of wheat, nor the price of a glass of beer with the price of barley. There are very many articles of daily use the prices of which are fixed and customary and, therefore, will not be raised or lowered according to changes in either the supply or price of the raw material. True, the producer, under conditions of competition, must adjust his price to the conditions of supply. But the producer does not sell directly to the consumer. His price may show most extraordinary changes over a period of years, while the consumer pays the same price throughout. A typical illustration is that of the herring or sardine industry on the coast of Maine. The price to the consumer is uniformly 5 cents per can, which is the equivalent of $5 per case in the producer's hands. The producer, however, gets anywhere from $2.30 per case to $3.75 per case, according to the conditions of the season. The difference of 25 cents a case may be a matter of material profit or loss on the part of the packer. According to the ordinary theory of competition, he should be selling his goods under conditions to assure him a "normal profit in the long run." As a matter of fact, he may "make a killing" or may "go broke." But what happens to the producer seems to have no effect upon the consumer. Whether the packer sells below cost or sells at a price which gives him a handsome profit on his season's operations, the consumer still pays his customary 5 cents. This, instead of being an exceptional industry, is quite typical of a large part of business at the present time under our system of distribution with its rigid customary or "set" prices. The price paid by the consumer and the price received by the producer seem to have very little direct relation. To make clear in greater detail the surprising complexity of the situation, let me take a few illustrations from the report of the Tariff Board on the cotton industry regarding the price of cotton bedquilts. Throughout this article the writer confines himself to illustrations from industries covered by the reports of the Tariff Board because he served as a member of that body during the three years of its existence, 1909-1912. Many similar illustrations could be given from a wider range of industries.

In 1907 the manufacturer's price for a certain cheap cotton bedquilt was 65 cents. The jobber sold this quilt to the retailer for 75 cents, and the retailer sold it to the consumer for $1. In the following year this same quilt was sold by the manufacturer, because of difference in the price of raw material for 2½ cents less. The jobber's price was correspondingly reduced by 2½ cents, but the retailer's price to the consumer was still $1. In 1911 this same quilt was sold by the manufacturer for 75 cents, an increase of 10 cents over the price of 1907. The jobber now added 25 cents instead of 10 cents to the price and sold to the retailer at $1, and the retailer sold to the consumer at $1.50. Thus an increase of 10 cents in the price at the mill became an increase of 50 cents to the purchaser. The actual profit to the manufacturer was about 6 cents per quilt.

A somewhat similar quilt was sold in 1907 by the manufacturer for 71½ cents, by the jobber at $1, and by the retailer at $1.50. In 1911 this same quilt was sold by the manufacturer at 67½ cents, by the jobber at 75 cents, and by the retailer at $1. Thus a decrease in price at the mill of 4 cents resulted in a reduction of price to the consumer of 50 cents.

A superior kind of quilt was sold ten years ago at 80 cents at the mill, by the jobber to the retailer for $1, and by the retailer to the consumer at $1.50. In 1911 this same quilt was sold at the mill for $1.17, by the jobber for $1.50, and by the retailer for $2.50. Thus an increase at the mill of 37 cents resulted in a change of only 50 cents in the jobber's price, but raised the price to the consumer by a full dollar.

On the other hand, a fine, so-called satin quilt was sold in 1907 at the mill for $3.25, and to the consumer, in some cases at least, for $5. The following year it was sold at the mill for $3 and to the consumer for $5.

In the above examples the relation of the price which the producer receives for his commodity to the price which the consumer pays for it seems to follow no rule of logic. We have seen that in one case an increase of 10 cents at the mill was followed by an increase of 50 cents to the consumer and in another case that a decrease of 4 cents at the mill was followed by a decrease of 50 cents to the consumer, and in a third case that a decrease of 25 cents at the mill made no difference at all in the price to the consumer.

I have emphasized the problem of the relation of producer to consumer because the whole argument regarding the tariff question

hinges upon this relationship. The contest between protectionists and free-traders has been generally looked upon as a struggle between producers and consumers. The argument for protection has always been that the government should restrict the importation of foreign commodities, manufactured at a cost lower than that for similar commodities produced at home, to enable the home producer to compete on favorable terms in his own market. The argument for free trade has been that such protection has always been at the cost of the consumer who has been obliged to pay the higher prices, and that from the moral point of view this was unfair class legislation in that it taxed the many for the benefit of the few, while from the economic point of view it was unwise in that it forced the investment of labor and capital from more profitable to less profitable lines of enterprise.

This argument is clear and familiar. It is based on the assumption that each individual, if left entirely undisturbed by government regulation, will naturally seek that employment for his capital which is most profitable. Where each capitalist invests in those industries which are most profitable under the given natural conditions of the community in which he lives, it may naturally be assumed that the wealth of the whole community will be most rapidly increased. The very fact that a protective tariff is needed in order to maintain an industry in existence in a given community shows that that industry is less adapted to the character of the natural resources, or the character of the producing population, than an industry which can support itself without extraneous aid.

Protection, therefore, is supposed to be either useless or harmful. It is useless where the home producer can put his goods on the market more cheaply than the foreign producer; it is harmful where the goods can be imported more cheaply from some other country, since it induces investment in less profitable lines.

In the face of the seemingly inevitable logic of this argument the protectionists have been hard put to it to find any intellectual justification of their faith. Some of their arguments have been profound and have taken account of factors of importance which free-traders have ordinarily overlooked. Other arguments have been extremely shallow, and many of the protectionist arguments have been in conflict with one another. It is no part of the purpose of this paper to discuss these arguments except to consider the one question of the relation of tariff to price. It is well, however, to remember that when such a problem as that of the tariff becomes a

problem of practical politics the necessity of appealing to different classes of people for their support is almost certain to result in an array of inconsistencies. The free-traders are by no means guiltless in this regard. For example, an interesting illustration is to be found in the attitude of the English free-traders toward the Canadian preferential tariff. According to the free trade theory a tariff reduction should always prove beneficial both to the exporting and the importing country, and should lead to an expansion of trade which has been foolishly and artificially restricted. Mr. Chamberlain, however, had advocated preferential tariffs as between the mother country and the colonies as a practical political program. Canada had taken the lead in giving preference to English goods by reducing her tariff first by 25 per cent and then by 33 1/3 per cent on imports from the mother country. This from the free trade point of view should have been welcomed as at least a step in advance, but it now became desirable from the exigencies of party politics in England to show that there was no advantage in the Chamberlain policy, and the free-traders exerted themselves in every way to prove that, despite this reduction in favor of English goods, English trade had not expanded as compared with American trade paying a higher tariff and that, consequently, preferences of this kind had proved themselves of no advantage. The obvious retort is: If this was true, why advocate reduction at all?

It is hardly necessary to point out that the most common and obvious inconsistency on the part of the free-traders lies in their maintaining in controversial arguments at one and the same time that protection is not needed in order to maintain a given industry and that the result of protecting such an industry is to divert labor and capital into less profitable undertakings. One charge may be true of one industry and the other of another. They can not both be true of the same industry at the same time.

The great inconsistency, however, in the minds of most people, has been that of the protectionist party in this country, which, after advocating the necessity of protection because of the inability of the producer to meet the competition of foreign cheap goods, was obliged to face the ire of the consumer who said that he wanted his goods as cheap as possible and preferred to buy them from the foreign manufacturer rather than pay tribute to the domestic manufacturer. Consequently, the protectionists felt forced to reply that under a system of protection domestic goods could be

purchased as cheaply as foreign goods under a system of free trade. It was contended, in the first place, that the growth of domestic industry would ultimately lead to such competition that the home price would be reduced to the level of the foreign price. But this, of course, was not an adequate defense of a permanent system of protection. The obvious reply was that if the manufacturer had come to the point where he could sell as cheaply as the foreigner he would not be injured by a reduction of the tariff. This, in turn, was not at all satisfactory to the advocate of protection, who wished to maintain it not only as a permanent policy in general, but who wished to maintain rates after they were obviously unnecessary from the point of view of the "relative cost of production here and abroad." Consequently there arose the famous argument that "the foreigner pays the tax."

With this argument it was hoped to satisfy everybody. There was an instinctive feeling that protectionism involved a loss somewhere. If it could be shown that this loss fell upon the foreign producer and that the domestic producer gained while the domestic consumer lost nothing, an argument for permanent protection seemed to be established. But the inconsistency would not down in the minds of intelligent people. The protectionist must say one or the other thing. Either the tariff raises prices or it does not raise prices; that is, either it maintains domestic prices at a higher level than foreign prices, or it does not do so. If domestic prices are no higher than foreign prices, what is the need of protection? Obviously the protectionist has little standing ground left. On the other hand, if protection does maintain a higher level of prices for the benefit of the producer, how can he escape the inevitable conclusion that the consumer pays the price, that the benefit to one domestic class is paid out of the pockets of another?

It is just here that the propositions advanced above become vital. I mean the fact that when we talk about the price of an article in our theoretical reasoning regarding the tariff we are inclined to talk very glibly as if there were but one price for an article at a given time. The fact is, there are various prices. Not only are different producers selling the same article at different prices, but the same producer frequently sells different portions of an identical product at different prices in different markets. Indeed, strange as it may seem, he may sell the identical product at different prices in the same market. I have known cases where manufacturers have sold an article of exactly the same quality

under the name of two different grades, selling the lower-priced product when the demand for the higher-priced (and supposedly better) grade had become exhausted. It is, of course, a very common practice for producers to sell at different prices in different markets, and it is a mistake to suppose that it takes either a high tariff or a condition of monopoly to make such a price policy profitable. It is no longer to be looked upon as something unusual and to be explained as occurring only under peculiar non-competitive conditions. It comes nearer to being typical of market phenomena in general than is the competitive determination of prices on a board of trade or cotton exchange. In other words, the principle of "charging what the traffic will bear" is now a common rule of trade. We are, however, not so much concerned with such divergences of price as with the much simpler fact that at any given time for any standard article there is a producer's price, a jobber's price, and a retailer's price.

To my mind, much of the writing of economists on the theory of international trade is weakened, if not vitiated, by their failure to consider these actual facts of business life. They take hypothetical illustrations—the price of wheat in Poland and the price of linen in Ireland—and draw conclusions as to the general effects of tariff, as if these prices were single and uniform. Detailed tariff investigations make one somewhat skeptical of the theoretical reasoning on both sides of the question. When we come to consider the actual effect of any particular tariff rate, we find that frequently, for quite unexpected and sometimes inexplicable reasons, a similar tariff seems to operate in very divergent ways in different cases. The problem is far less simple than it appears on its face.

What was said about bedquilts applied only to domestic goods and had no particular connection with the tariff question. It is now obvious what the tariff application would be. Just as a reduction of 25 cents in the mill price may have no effect on the consumer's price, so it is quite possible that a reduction of a tariff by 25 cents, even if it forced the producer to sell by that much less, would have no effect upon the consumer. On the other hand, just as an increase of 10 cents in the mill price led to an increase of 50 cents to the consumer, so it is quite possible that an increase of the tariff by the amount of 10 cents might increase the consumer's price by 50 cents.

The point of theoretical interest lies here—that if any sound

economic argument for the permanent maintenance of a certain scale of protective duties can be made, the germ of it will be found, I believe, in this consideration of the relation of producer to consumer. Indeed, it may be that after a consideration of facts of this nature we shall have to admit that what seemed hopeless inconsistency in the protectionist's position is not so hopeless after all. We left him on the horns of the dilemma raised by the question, "Does the tariff raise prices or does it not raise prices?" If he replied in the affirmative he was met by protests from the consumer. If he replied in the negative he was met with derision by the free-trader, since there would be no object in a protective tariff if it does not "protect." Is it not possible to reply now that conceivably a protective tariff can be so arranged as to raise the producer's price while not increasing the consumer's price? Through our peculiar method of distribution, of which more will be said later, there is a wide margin between the price which the maker of an article gets and the price which the user of an article pays. The protectionist might assert that his object was merely to reduce this margin, to secure to the producer a somewhat higher price than he would be able to get without the tariff, but to take this increase out of the margin between producer and consumer, without laying any additional burden upon the latter. If, as above suggested, the tariff question represents an issue between producers and consumers, here might seem to be the possibility of a greater harmony. After all, the chief demand on the part of the public for tariff reduction in this country has been not from theoretical consideration, nor from the widespread belief that capital has been diverted into unprofitable undertakings, but simply from the general conviction that the tariff has increased the cost of living to the ultimate consumer. Now this ultimate consumer is simply concerned with one particular price, namely, the price which *he* has to pay. He is not concerned with mill prices or jobber's prices, but merely with retail prices. On the other hand, the producers, in their advocacy of the tariff, are not concerned with the price paid by the consumer. They would be glad to have the consumer get his goods as cheaply as possible, provided the mill price of goods is enough to yield them the desired margin of profit.

Take, for instance, such a case as the cotton industry. It should be remembered that the difference of half a cent a yard on many fabrics means all the difference between profit and loss to the manufacturer, whereas, on the other hand, that difference of

half a cent a yard at the mill may have no effect on the consumer. On the basis of these facts a theoretical argument may be made in favor of protection, to this effect: that a moderate amount of protection would enable many large established industries to maintain more active and profitable business and a greater continuity of employment, and yet not throw any proportional burden upon the consumer.

This proposition can be illustrated by actual cases in detail. There can be no question that the retail prices of cotton goods in this country are higher than in England, and most people have attributed this to the fact that the tariff enables the manufacturer to charge a higher price. The report of the Tariff Board on this industry was somewhat of a revelation even to the manufacturers themselves regarding relative producer's prices in this country and in England.

In the list of 100 samples of cotton goods, running all the way from cheap cotton duck to fine tapestries, it was found that in 37 cases the American manufacturer was selling at a lower price than the English manufacturer. Twenty-five of the 100 samples were printed cloths, including challies, lawns, percales, organdies, batistes, and so forth. Of these 25 samples it was found that 10 were selling lower at the mills in the United States than in England; 13 were selling at higher prices in the United States; and for 2, English prices could not be obtained. On the other hand, in all these cases the American consumer was paying more, and often much more, than the English consumer. Obviously, in the cases of those goods selling as cheaply at the mill in this country as abroad these higher prices to the consumer could not be the result of the tariff. Under conditions of perfect free trade, the jobber would still have been able to get his goods cheaper from the American manufacturer than from the English manufacturer. There would have been no occasion for importations. The higher prices to consumers are to be explained by our method of distribution and the much wider margin between manufacturer and jobber, jobber and retailer, and retailer and consumer in this country than abroad.

One of the most effective causes of this situation is to be found in the existence of so-called set prices in the trade; that is, there are for ordinary cotton goods certain customary or fixed prices which admit of no intermediate prices. If the retailer can not sell at the customary price he does not increase his price by ½

cent or 1 cent a yard, but jumps the fabric into the next classification. These classes are 10 cents, 12½ cents, 15 cents, 19 cents, 25 cents, 35 cents, with sometimes an intermediate rate of 29 cents. A few illustrations will show what I mean.

A standard printed percale sold at the American mill for 6¾ cents a yard, representing a profit of less than ¾ of a cent to the producer. It reached the consumer at 10 cents a yard. The same cloth was sold by the English mill at more than ½ cent a yard higher than the American price, but reached the consumer at the same figure.

A staple India linon was sold at the American mill for 7⅛ cents, giving a profit of 1¼ cents per yard. It was jobbed at 9½ cents, and retailed to the consumer at either 12½ cents or 15 cents, according to the locality. This same cloth cost ½ cent more at the English mill than at the American mill, but reached the consumer at about 11 cents; that is, with a higher price for the English producer, the English consumer got the article anywhere from 1⅓ to nearly 4 cents less than the price charged the American consumer.

A printed curtain scrim was sold by the American mills at 10½ cents a yard, was jobbed to the retailer at 12½ cents, and sold by the retailer at 19 cents, 25 cents, and sometimes even at 29 cents a yard, according to local conditions. The same cloth was sold at the English mill for slightly over 10 cents a yard, and reached the consumer at 15¼ cents; that is, although the American mill price exceeded the English mill price by only ⅓ of a cent, the retail price in this country was from 4 to 14 cents higher than in England.

A particularly interesting case was a standard mercerized poplin. This sold at the American mill at 14½ cents and reached the consumer at 25 cents. In England it sold at the mill for about 2 cents a yard less than at the American mill, but was retailed for 17¼ cents.

Another illustration is that of a typical sample of "fancy white goods" sold to the better-class trade at the retail price of either 35 cents or 39 cents in this country and at about 22 cents a yard in England. This sold at the American mill for 18½ cents and at the English mill for 15¼ cents. Here a difference of 3¼ cents in mill price was accompanied by a difference of from 13 to nearly 17 cents in the retail price.

It is worth while to give such detailed figures as these to bring

out the fact that there is no single rule governing the effect on the consumer of particular tariff increases or decreases, even in the case of goods of similar quality. We used to occupy ourselves in the Tariff Board office sometimes, when time permitted, in figuring out just what changes would affect prices and what changes would not. I remember making a calculation on one fabric, where we started with an assumed 10 per cent reduction on an article selling for 25 cents. This showed that under the methods of distribution in the cotton goods trade the consumer would receive no benefit. The same was true of a 20 per cent reduction, a 30 per cent reduction, and a 40 per cent reduction. On the other hand, we figured that a reduction of 50 per cent would reduce the price just enough to enable the retailer to throw the article into the lower classification and sell it at 19 cents. In other words, a reduction of 40 per cent would apparently have been of no benefit to the consumer, whereas a reduction of 50 per cent would have saved him 6 cents a yard.

Take, for example, the last two cases cited from the samples of cotton goods. In the case of the standard mercerized poplin selling at 25 cents to the consumer, if the duty had been entirely removed and the American mill price reduced to 12½ cents to correspond to the English mill price, it would still have been jobbed at 16½ cents and would have retailed at the old price of 25 cents, giving the consumer no benefit at all. For this article to get to the American consumer at the price paid by the English consumer, the mill price would have needed to be reduced to 10½ cents, or 2 cents lower than the mill price in England.

On the other hand, in the case of the fancy white goods, the American cost was about 11½ cents, giving a mill profit of 7 or 8 cents a yard. A reduction in duty which would have brought the American mill price down to the level of the English mill price would still have allowed a profit of 3¾ cents a yard to the manufacturer and would have resulted in a saving of at least 10 cents a yard to the American consumer.

A somewhat different problem arises in the case of the woolen and worsted industry, where not only are consumer's prices of the products higher than abroad, but in the great majority of cases producer's prices as well. Here it may fairly be assumed that the prices of manufactures of wool have been increased to the ultimate consumer by means of the tariff. Whether this has been a wise or an unwise policy as a whole is not a part of the present discussion.

It is worth while, however, to say that in such a case one can very easily draw erroneous conclusions regarding the effect on the consumer of any particular reduction of the tariff. As in the case of the cotton fabrics, referred to above, where it was shown that a reduction of 40 per cent might lead to no reduction in the consumer's price, while a reduction of 50 per cent might be a large saving to the consumer, so in the case of wool manufacturers it should be recognized that it is all a matter of degree and that it is quite possible that a seemingly large reduction, though reducing the mill price of the manufacturer, might not result in a corresponding gain to the consumer.

In the case of raw wool, we had a situation under the earlier tariff where about one third of our total consumption was imported. The protectionist legislators themselves, in arranging the duties on manufactures of wool, went on the assumption that the price of wool would be raised by the full duty. Of course, the actual importer of wool did pay the whole duty, but it would be difficult to determine how far London prices were cut for his benefit to enable him to bring the wool in over the tariff barrier. It seems to be the general opinion of wool dealers, both in England and in this country, that in general the price of similar domestic wool was raised by about half the amount of the tariff and that at certain times the addition to the price of wool in this country because of the tariff was even less. It was a common statement in the trade four years ago that wool was already selling "on a free trade basis." Such a condition was, however, exceptional, and we may fairly assume that the former duty on wool materially raised the price of the article to the purchaser. On the other hand, it would be going too far to say that the price of domestic wools in the grease was normally higher than for similar grades in London by the full 11 cents per pound.

This schedule offers one of the most interesting illustrations of the cumulative effects of a tariff. Not only did the producer have to pay for his raw material, but, so far as the worsted industry was concerned, nearly all of the machinery, up to the process of weaving, was imported. This machinery paid a duty of 45 per cent, and that, together with extra charges, forced the American manufacturers to start with a higher investment in machinery by something like 65 or 70 per cent. The duties on the manufactures of wool, due to the allowance made for the duty on raw wool, were in many cases absurdly high. But even with all these conditions,

the prices of woolen goods in this country were not raised by anything like the full amount of the duty. The Tariff Board made a calculation on 16 typical cloths of low and medium grade, on which the average rate of duty was 183 per cent, while the price on these goods as compared with similar goods in the English market was about 67 per cent higher. This particular calculation has become somewhat prominent in the discussion of this problem by economists, but the average figure, 67 per cent, should, of course, be taken with due caution. The extent to which the American price and the English price of similar fabrics diverge is extremely various, and frequently the divergences are difficult to understand. In the case of a number of suitings, the American price is about 45 or 50 per cent more than the English; while in other cases the divergence runs well above 67 per cent. To illustrate the point I desire to bring out in this paper, it is only necessary to take some one specific difference. Further calculations can be made at will as to the probable effect of reductions in tariff rates on the basis of other differences which may be assumed.

The question may then be asked, what will be the effect of the actual change made in the duties on woolen and worsted goods upon the price paid for clothing by the ultimate consumer. Of course, people who are accustomed to go to England for their clothes will feel an immediate relief. The present duty on clothing is 35 per cent, whereas formerly in bringing our custom-made suits into the country we paid 75 to 90 per cent and sometimes even more. To such people the saving is direct and obvious.

The great mass of people, however, do not go to London for their clothes and do not even go to tailors for them. They buy ready-made suits from the retailer. Here comes in that factor of the great gap between producer's prices and the consumer's prices which is likely to absorb any benefit which the reduction in the tariff would otherwise bring. Of course, if foreign countries should develop a great ready-made clothing industry to meet the demands of the American market, the consumer would realize a great benefit. It is not impossible that this will prove to be the case, but I am very skeptical regarding it. As yet at least, there is no sign of the foreign producer being able to meet the tastes of the American public or to develop the ready-made clothing industry, which is, after all, a distinctively American enterprise.

In this case the question arises, whether the consumer of ready-made clothing in this country will gain much, if anything, from a

reduction of duty on the material. Retail trade is determined very largely by custom. Prices are fixed at certain customary points. There are $12.50 suits, $18 suits, $23 suits, $35 suits, and so on. Here again the problem of price changes is largely a question of detail rather than of general theory. I shall venture some further very specific figures to illustrate the point.

Besides investigating costs and prices in the matter of wool and the manufacture of cloth, the Tariff Board made a study of the ready-made clothing industry and the relation of the prices of clothing to the tariff. Among other things, they took a number of actual typical suits and traced the prices and costs from the price of the suit on the consumer's back to the cost of the wool on the back of the sheep. Let us examine a typical case.

The old tariff was 11 cents a pound on wool, and on cloth was 44 cents a pound plus 55 per cent. The new act provides for free wool and a rate of 35 per cent upon cloth. How should these changes affect the consumer? The first example given by the Tariff Board is that of a fancy worsted suit for which the consumer pays $23 or more. To make this suit it took 9.7 pounds of half-blood Ohio wool, for which the wool grower received $2.23. Even if we assume that this price of Ohio wool included the full amount of the former duty and that the consumer would get the full benefit of any reduction, it will be seen that the saving on a $23 suit would be only $1.06 on account of the removal of the tariff on wool.

If, on the other hand, the price of domestic wool was not normally raised by the full amount of the old 11-cent rate but by (say) 5½ cents, the reduction in the cost of the raw material on such a suit would be only 53 cents. Whether so small a reduction would redound to the benefit of the consumer or be absorbed in the process of distribution is, of course, something that could be finally determined only by experience. It is not by any means to be assumed that the consumer would get his suit 50 cents cheaper. On the other hand, if the consumer's price were reduced at all it would probably be reduced by more than the 50 cents because of the fact that the suit would be thrown into a lower-priced class.

More directly illustrative of the point under consideration is the question of the effect of the change in duty on cloth. The analysis by the Tariff Board further shows that this 9.7 pounds of wool was turned into 3.6 yards of cloth, of which the cost of manufacture was 44.2 cents per yard. Adding to this the cost of

the wool, 82.3 cents per yard, the total cost of the cloth was $1.265 per yard; and the selling price to the clothing manufacturer was $1.328, giving a margin of profit to the cloth manufacturer of about 6 cents per yard, or 23 cents on a suit costing the consumer $23. The total cost of making a suit was $14.32, of which $7.55 was for cloth, linings, and trimmings, and $1.90 for selling expense. The regular wholesale price of the suit was $16.50; the net price, after deducting discount, $15.39. This was the price paid by the retailer, who then sold the suit to the consumer for $23.

Consider now the effect of a change in the tariff on woolen cloth. The total cost of the cloth in this suit was $4.78. From other figures given above, assume this to be higher than similar cloth purchased in England by 67 per cent. Then the English price would be $2.86 for the 3.6 yards. Under the Underwood rates the duty on such cloth would be 35 per cent or $1, which would bring the price, duty paid, on the 3.6 yards of cloth to $3.86 instead of $4.78; or a saving of only 91 cents on the suit. It may be noted that in the case of this particular fabric it was found that a very similar article was being sold in England at about 2/3 of the American price. In such a case the saving on a suit would be only about 48 cents instead of 91 cents. On the other hand, of course, in the case of some suitings, the amount would be greater rather than less. Here again the question arises as to how far this saving on the cost of cloth, to wit, less than 5 per cent on the price of the suit, would be reflected in the actual price paid by the consumer. As already stated, suits sell at certain fixed, customary prices, and the manufacturer does not make a reduction of a few cents every time he is able to buy his cloth stock at a slight reduction. Still less does the retailer. The mere fact that the clothing manufacturer could get his stock somewhat cheaper from the English cloth manufacturer than from the American does not necessarily mean that the price to the consumer would be reduced. As already suggested above, if any reduction were made, it would probably be greater than indicated by the actual saving in duties, due to the fact that the suit would now be thrown into a lower retail class. Such questions are questions which, in one sense, can be finally determined only by the test of experience. On the other hand, any one thoroughly conversant with the range of mill prices, jobber's prices, and retail prices over a period of years, can probably predict the change with a fair degree of

accuracy. The difficulty would be great only where the price fell near the margin between two classes.

It may, perhaps, be better without drawing any definite conclusions, to leave to the reader the above detailed examples of the complexity involved in the problem of the effect of tariff duties on prices, when we put aside general theorizing on the incidence of taxation and attempt to determine the actual result of any particular rate on any particular commodity under actually existing conditions. Indeed, the object of this paper is to state the problem and emphasize its complexity, rather than to solve it. It aims to show that a solution of practical value can not be secured by reasoning from a set of imaginary conditions, but only from a study of infinite detail. This is not meant to minimize the importance of sound theoretical reasoning in the field of economics; only to insist that the application of such reasoning to practical legislation in tariff matters should not be made too cavalierly, or with disregard of the facts of our distributive system which are sometimes as inexplicable as they are stubborn.

Brief reference must be made to two obvious objections that may be raised. It may be said that however many peculiar cases may be cited, the whole system of protective tariffs must generally tend to maintain a higher level of producer's prices in the protected country, and that *in the long run* these must tend toward higher consumer's prices. Nothing in the above article is meant to controvert this view, although there may be cases where protection by stimulating the development of new resources may work toward lower prices of raw material. The point is of primary importance if we wish to consider the theoretical question of "free trade versus protection," or to discuss the comparative results which would arise from the choice of one policy or the other on the part of some imaginary country without a past history in this regard. The present article is intended, however, as a contribution to the intensely practical question of the probable effect of actual tariff changes in this country. In the first place, we have our existing systems of manufacturing and distributing as they are—the products of more than a century of past policies. In the second place, no political party proposes a change to actual free trade. The present Democratic tariff, like those of the past, is a protective tariff. True, it may be levied with no ulterior intentions other than raising revenue. So long, however, as it levies duties on thousands of articles which compete with domestic products, it has just as

important effects, one way or the other, on the interests of both producer and consumer as any Republican measure. Mr. Underwood's theory of a "competitive tariff" seems identical in principle with Mr. Taft's theory of a tariff "to equalize costs of production." The difference is one of degree. As a Democratic member of the Tariff Board used to say, "It is all a question of the amount of free-board." The deck may be left free, which in smooth waters would make no difference. It may be "protected" to any degree desired against the possible waves of foreign competition. Therefore, since the practical problem is not whether we have free trade or protection, but whether we shall reduce the duty on clothing to 35 per cent or to 25 per cent ad valorem, the considerations offered above are of great practical importance. The former rate might conceivably not change consumer's prices at all; the latter might bring about a substantial fall. The higher rate might force manufacturers out of business as effectively as the lower rate, but without the compensatory gain to the consumer. Surely these are questions worth the attention of tariff students whether economists or congressmen.

The second objection that might be urged is that to advocate the framing of tariff legislation with reference to the considerations here suggested is merely a "counsel of perfection." It may be claimed that the complexities are so great, and conditions change so rapidly, that it is impossible to secure a sufficiently accurate knowledge to be of practical use. I may confess that when first undertaking the work assigned to the Tariff Board, I was somewhat skeptical in this regard myself. Through experience, however, I became thoroughly convinced that within a reasonable time such information could be secured, which if not complete, would be at least adequate for the purpose. The only other alternative seems to be to choose between the ultra protectionist position, that each increase in a tariff rate is a good in itself, and the extreme opposite view, that every reduction is a good, however illogical in its relation to other rates. If the other is a counsel of perfection, this is surely nothing better than a counsel of indolence. There has been much ridicule heaped upon the idea of a "scientific tariff"; and justly so if the word "scientific" is supposed to be used in its strict (or "scientific") meaning. Certainly no member of the late Tariff Board ever ventured the opinion that it would be possible to devise a scientific tariff in this sense. But it should be remembered that the phrase has been loosely used by politicians and business

men simply to indicate tariff legislation based on an intelligent and impartial study of the probable effects of proposed changes on producer's prices, on consumer's prices, and on revenue. It is not a question of a "scientific" tariff, but of an *intelligent* tariff—that is, a tariff so arranged as to bring about the results really intended. Surely it is important to know that in the case of one commodity a given reduction will probably force the home producer to sell below cost without reducing the price to the consumer, while in the case of another commodity the same reduction will bring about a material fall in the consumer's price while still leaving a living profit to the manufacturer.

If we are to continue long, as now seems certain, our present tariff system with duties on thousands of articles produced at home it is obvious that an intelligent tariff, even where primarily for revenue, should be so designed as to give the greatest aid to the home producer with the least cost to the consumer—or to put it conversely, the greatest gain to the consumer with the least disturbance possible to profitable business. To do this requires a careful and detailed analysis of marketing conditions and of the relation of producer's and consumer's prices. Such a study is not at all outside the lines of the possible or even the practical.

At best, a tariff must be a matter of pretty rough adjustments. Scientific accuracy is of course a chimera; but this does not mean that a fair appreciation of the results of tariff changes should not be attempted, or that a decent approximation to this end can not be made. Such efforts, to be of value, should be not sporadic but continuous. Fortunately they are cumulative in their results, so that each successive year would make the task easier, the results more certain. No one who has observed the work of the permanent officials of the departments of Commerce and of Finance in Vienna, for example, in their detailed study of the economic effects of tariff rates, can question this fact.

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SUPPLEMENTARY NOTE. It is not possible to discuss in detail the relations of the above article to Taussig's *Some Aspects of the Tariff Question,* which appeared after the article had been written. It is only hoped that it will be accepted by Professor Taussig and by the reader in general as written with something of the same patient regard for concrete realities which characterizes that work, and in harmony with his method of treatment, even if not agreeing with every detail of

his conclusions. The writings of Professor Taussig on the tariff form a conspicuous contrast to much of the general discussion of the question as criticised in the foregoing pages. In his new volume he not only continues in brilliant manner "the direct investigation of particular cases"—which he calls "the only method applicable to this sort of economic inquiry"—but he sets an example to all economists in his frank willingness to modify earlier conclusions on the basis of a more detailed study of business facts. Indeed, any writer who never finds any errors in his first conclusions as to particular tariff effects is more probably afflicted with blindness than with infallibility.

The present article may in a sense be considered an appendix to his first chapter, entitled Duties, Imports, Prices. It would be difficult to compress into such brief space more sound analysis combined with clear recognition of facts. It does not, however, include a consideration of the specific factor so much emphasized above, namely, the difference between producer's price and consumer's price. Perhaps this factor was considered by Professor Taussig and discarded by him as non-essential. The present writer, however, makes bold to believe that this is just what is necessary to round out and complete the analysis, both in that general chapter and in its later applications. It will be seen that on some points there are differences, but these are rather as to the evidence of facts than of theoretical interpretation. Thus, Professor Taussig takes it as assured that the price of domestic wool under the old tariff was raised by the full amount of the duty, while in the above article importance is attached to what was a widespread "opinion of the trade" that the price was often higher by only one half the amount of the duty. However, on this there was no unanimity of opinion. I found the view quite commonly expressed by English dealers. Doubtless there are divergences from year to year. In any case, I am confident that Professor Taussig would agree with me that the question must be determined in the market place and not in the study.

A similar problem arises in the case of sugar, although the subject is not discussed in the present article. Professor Taussig takes sugar as the instance *par excellence* of continuing imports over a duty which raised the price of the domestic product by the full extent. He gives a balance sheet for the year 1909-10, showing the loss and gain to the government, the producers, and the consumers. The method of computation seems entirely proper, barring perhaps the assumption that the price was increased by 1½ cents rather than by the actual amount of the duty on Cuban sugar. The interesting question is whether a new era was reached about 1913. It was claimed by shrewd (if interested) students of the situation that in that year conditions had so changed that the price of domestic sugar was higher than the foreign price by less than even the reciprocity rate on the Cuban product; and also that a new situation had arisen which would bring the sugar industry under the category considered by Professor Taussig on page 16. That is, it is not *a priori* certain that all the things we have rightly said about sugar prices and the tariff in the past will continue to be applicable indefinitely.

Reference has been made in the above article to price-making practices ordinarily dismissed as "abnormal." These are discussed by Professor Taussig with a clear grasp of market actualities. He goes far in recognizing the permanence of such seemingly disturbing factors, though the present writer will doubtless appear even more extreme. Whether there is a real divergence on the question of how far continuous dumping involves a monoply element depends on the definition of monopoly. For example, I should take as a typical case a small Kansas miller selling flour in Glasgow cheaper than in Kansas City. Here neither tariff nor monopoly in the ordinary sense figures in the problem. If, however, the monopoly conception is held to include all cases where a dealer has a certain customary or personal hold on *a part of his market,* and has to fight by cut prices for *another part;* then it may be admitted that monopoly and dumping go together. But in that case monopoly is not the extraordinary, but the typical, condition.

I have claimed for myself some of Professor Taussig's patience in the analysis of specific facts. I can hardly claim it, after what has been said in the body of the article, regarding the ordinary theory of competitive price. He continuously and fearlessly modifies it and limits it as each new complexity appears. I have been so impressed by exceptions and complexities that I have suggested disregarding the old theory till we have made a new inductive study of price phenomena as they appear in the actual markets of the day.

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